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RTOs in depth: size, scope, and operation.(regional transmission organizations; GridFlorida, GridSouth, SE Trans and RTO West.)

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Electric industry views on GridFlorida, GridSouth, SE Trans, and RTO West.

AS LAST YEAR DREW TO A CLOSE, MORE than a half-dozen plans emerged to form new regional transmission organizations (RTOs), but if the hue and cry that followed offers any indication, then the applicants certainly have a long way to go before winning certification from the Federal Energy Regulatory Commission, according to the rules set for RTOs set by FERC under Order 2000, issued in 1999.

What's at stake is the complete restructuring of the transmission sector of the privately owned segment of the U.S. electric utility industry. But even as the RTOs rolled out their separate visions of the future, uncertainty reigned in California and in the Midwest, where the FERC already had certified two independent system operators (ISOs), now seen as precursors of RTOs.

In California, some 28,000 megawatts of utility-owned generation was returned to state control by the FERC in a decision issued on Dec. 15. The FERC urged more bilateral trading, to reduce the influence of markets run by the state's power exchange and ISO.

And in the nation's midsection, Dynegy (parent company of Illinois Power) threw a curve at the Midwest ISO by stating that it would exercise its "contractual right" to withdraw from the group and instead cast its lot with the Alliance RTO, not yet formulated.

Dynegy said it was too early for the FERC to rule on the scope and configuration of Alliance vis-a-vis MISO, but Robert Tongren, the Ohio Consumers' Counsel, fired back: "In fact, the commission cannot rule on Dynegy's request (to withdraw) without effectively ruling on the scope and configuration of the MISO" Many urged that only one RTO should form in the Midwest.

Here we offer an in-depth look at four major new RTO proposals: SE Trans (Southern Companies), GridFlorida, GridSouth, and RTO West.

Of the four, the plan by the Southern Companies is seen as the "worst practice" with RTO West touted as "best"--at least by attorney Sara Schotland, representing the views of ELCON, the Electric Consumers Resource Council. By contrast, Schotland sees the "binary" RTO partnership between Entergy and the Southwest Power Pool as "quite odd" (That RTO is not covered here, but turn to page 33, for more on that plan, and PJM and DesertSTAR, in the commentary by Lynne Church, of the Electric Power Supply Association.)

Otherwise, note that none of the group has yet proposed to form its own power exchange. What does that say about power markets?

SE Trans Grid: A Big Enough Footprint?

With little input from others, the Southern Companies promote their for-profit gridco, assailed by critics as a one-company system.

The Southern Companies say that when they began to (think about

forming or joining an RTO in early 1999, they imagined they would simply sell their transmission network to a third party. But when no buyer came forward, the utility system turned to plan B--a spin-off. If either of these efforts had proven successful, the utility explains, then many of the complaints and criticisms raised about Southern's potential control and dominance over its proposed RTO would have faded away. But neither spin-off nor sale was in the cards.

"Unfortunately" says Southern, "the investment community made dear late in the summer of 2000 that they believed a spin-off was not a realistic option. Their concern was that the stock of such a spin-off company would trade at a discount to the vertically integrated utility and thereby devalue the shareholders' assets"

In short, says Southern, the investment community was "troubled" by the "lack of a track record" in the United States for a stand-alone transmission company. Analysts also questioned whether federal regulators would allow a high-enough return on investment to float such an enterprise, it adds.

So, while Southern insists that as late as December 2000 it was still continuing "to explore" divestiture options, the lack of a deal last summer left the utility with little time to switch strategies and still comply with deadlines imposed by the FERC in Order 2000. The utility quickly held two meetings in September in Atlanta and Birmingham, Ala. At those meetings it presented a few details of its nascent plan--and even took a little input from the public--but decided eventually to abandon any attempt to develop an RTO plan through open collaboration.

"Under these circumstances," said Southern, "a public stakeholder negotiation process could interfere." And perhaps that is why many in the region have decried the Southern proposal as not so much an RTO as an internal corporate business plan.

"Essentially," say the Williams Companies, "the Southern gridco model is a single utility system cloaked and slightly reconfigured to appear as an RTO."

"There has been little give-and-take in the development of Southern's RTO proposal," adds MEAG, the Municipal Electric Authority of Georgia, which owns transmission assets that form part of the Georgia Integrated Transmission System (ITS). "Southern's RTO-related meetings have been primarily informational in nature and Southern has made clear that these meetings were not negotiations.... The various phases of that proposal have been developed internally among only the Southern Operating Companies"

The steelmaker Birmingham Southeast puts it all in simpler terms: "The philosophy of the Southern Companies in planning this RTO can be described as a complete unwillingness to give up control"

Issues and Attributes

Southern insists that the "footprint of the gridco is likely to expand over time." Yet some question where such expansion will come from.

Peter Fox-Penner, a transmission expert at The Brattle Group testified on behalf of Morgan Stanley Capital Group that Southern "does not appear' to have won the support of the other neighboring transmission owners and utilities that Southern lists as likely candidates to join the RTO, such as MEAG, the Georgia Transmission Corp. (GTC), Alabama Electric Co-op, and South Mississippi Electric Power Association (SMEPA).

As planned, the Southern RTO would cover 122,000 square miles, larger than ISO New England, more than double the size of the PJM or New York ISOs, but some 20 percent smaller than the California ISO. Yet the Southern RTO system would only cover the southern subregion of the Southeastern Electric Reliability Council (SERC). Within that small proposed RTO area, says GTC, the Southern Companies own 75 percent of the total transmission miles and 70 percent of the generating capacity, thus ensuring what GTC calls "Southern's overwhelming dominance"

Enron sees "no operational or market-based reason" why Southern's RTO should not combine with GridSouth in the Carolinas. "By balkanizing the region along state boundaries" says Enron, "these two proposals divide recognized trading patterns. GTC maintains that the optimal geographic scope of a Southeast RTO would extend all the way from Entergy's system to the Southwest, and through the Southern system and GridSouth, as well as include GridFlorida and Tennessee Valley Authority.

Other regional players have raised dozens of other issues and allegations, running the gamut from governance and management to markets and congestion management:

- * GOVERNANCE. Southern will exert undue influence as a passive owner over initial selection of a search committee for choosing directors or an interim CEO.

- * VETO POWER. Unfair to give each participating TO the right to "strike" one candidate for board membership without cause.

- * GRID UPGRADES. Confusion persists about who--the RTO or the TOs?--has authority over system planning and expansion.

- * NATIVE LOAD. The gridco tariff discriminates because it does not cover transactions where distribution utilities purchase transmission service to serve bundled retail load.

- * RETURN ON EQUITY. Southern's ROE would be too high, since the rate plan would adopt ROE levels OK'd by state regulators in setting rates for traditional bundled retail service.

- * REGIONAL SEAMS. Such a small RTO would create too many problems with parallel paths and loop flows, and would fail to internalize key constrained interfaces or coordinate seams between regions, and between the other RTOs proposed for the Southeast: GridFlorida and GridSouth.

- * GENERATION. Lack of RTO standards for generation interconnection discourages merchant generation.

- * FTRs. Allocation of firm transmission rights (physical rights keyed to flowgates) will perpetuate current inefficiencies and favor native load.

- * FLOWGATE RIGHTS. A system of physical transmission rights based on flowgates is untried, and less efficient and reliable than financial rights.

- * NODAL PRICING. The gridco's method for using nodal-based locational marginal pricing (instead of zonal) to govern bid-based markets for ancillary services and generation redispatch (for congestion relief) doesn't allocate costs properly and is not workable, given the tariff exemption for native load.

- * LOAD BALANCING. Why not systemwide balancing instead of forcing individual market participants to balance their particular transactions?

- * GRIDCO COSTS. Rate recovery of gridco administrative costs creates double recovery, as state PUCs already include such costs in bundled retail rates of transmission-owning utilities.

- * DIVERSIFICATION. Allowing the RTO to diversify and offer unrelated services, such as consulting, creates conflicts of interest.

The Southern Companies do not take all these criticisms lying down, however. Consider the right of passive (non-voting) transmission owners to exercise a single peremptory strike against a candidate for the board, which drew protests.

"This criticism is unwarranted," replied Southern in its answer filed in December. "A right to veto one of the initial candidates cannot seriously be considered to have sinister ramifications."

Contracts at Risk

Several of the municipal transmission-owning utilities identified by Southern as likely candidates to join the RTO already enjoy many RTO-like rights, courtesy of the Georgia Integrated Transmission System. In fact, the municipal systems want to know what would happen to their existing contract rights.

The GTS consists of approximately 16,000 miles of transmission lines owned either by MEAG, GTC, the city of Dalton municipal utility, or Georgia Power, a Southern subsidiary. By a series of bilateral **contracts** between the ITS owners, the ITS grants firm transmission rights similar to network service to ITS participants and assigns each co-owner the right to exclusive use of a load-ratio share of all interfaces adjoining the ITS. In one sense, the Georgia ITS already operates as a sort of de facto RTO. Listen to the Georgia Public Service Commission:

"Southern Companies have a unique relationship with some of the other nonjurisdictional transmission owners.... Under these agreements, the participating utilities have provided transmission service across the entire State of Georgia using each other's facilities--much like an RTO--for over 25 years"

In short, the municipal utilities in Georgia want to know how the RTO would reconcile existing transmission rights under ITS agreements before the munis commit themselves as participants, or even before the FERC approves the RTO. And the Georgia PSC believes that the FERC should accept the RTO plan only on condition that all three proposed RTOs in the Southeast would merge within three to five years.

In a similar vein, Duke Energy objects that Southern's RTO would give a right of first refusal to TOs for building transmission upgrades. "This ceding of control" says Duke, "should be eliminated from the proposal."

Yet Southern offers a plausible reason: "This proposal (a right of first refusal) recognizes that the new construction would be interconnected with existing facilities and that such work would likely be performed more expeditiously if it is done by the existing transmission owner who presumably has the right of eminent domain and the requisite technical qualifications."

To encourage wider participation by municipal utilities afraid of losing tax-exempt status if assets are devoted to a private use, AMEA and the American Public Power Association offer an ingenious solution: hard cash.

"The gridco should have at least the authority to purchase transmission assets offered for cash at prices up to net book value.... An option to sell for cash is needed to encourage the broadest possible RTO participation."

Meanwhile, the Southern RTO would demand its own set of cash incentives. The plan asks for a premium added to rate of return for investments that increase interregional transmission capacity, improve performance of wholesale markets, or that carry unusual risk because of a threat of transmission bypass. That notion raised hackles at the Alabama Electric Co-op.

"Southern claims that its for-profit gridco would find it difficult to raise investment capital without a broad array of incentives. Yet the Southwest Power Pool ... has a \$2 million line of credit and is in the process of securing nearly \$20 million in financing as a result of its RTO role. SPP expects at least an 'A' rating from Moody's and a 'BBB-' rating from Standard & Poor's, the same ratings given to the Midwest ISO earlier this year"

Flowgates and koopflows

Morgan Stanley Capital Group argues that the "high volume" of Southern's internal **power transfers** will impose "substantial loop flow effects" on neighboring transmission systems. Testifying for Morgan Stanley, Peter Fox-Penner relied on the **Power Transfer** Distribution Factors (TDF) Viewer developed by the North American Electric Reliability Council to analyze the magnitude of parallel path flows that control-area-to-control-area transactions within the Southern Subregion would impose on the Entergy and TVA systems.

According to Fox-Penner, a 100-megawatt transaction from the

Southern system to SEPAL would cause a parallel path flow of 32.5 MW on the Southern-TVA interface, a 33.6-MW flow on the TVA-Entergy interface, and between 5 MW and 18 MW on eight other TVA and Entergy flowgates--including 15.3 MW on the Brown-Sequoyah 500 flowgate (jointly owned by Southern and TVA) on which transmission loading relief (TLR) events of Level 3 and above were called 11 times this past summer.

Such testimony draws attention to the fact that the Southern gridco would rely on physical firm transmission rights (FTRs) tied to "flowgates" defined as transmission facilities or interfaces reasonably expected to experience congestion during certain periods. Southern says its RTO would begin operation with approximately 40 flowgates controlled by the gridco. This idea--to use physical rather than financial rights to hedge against congestion--has evoked concern.

"A major problem," argues SMEPA, "is that the granting of a firm reservation will be limited to the available capacity on the most constrained flowgate."

"For example, suppose there is a 100-MW firm transmission request from Area A to Area B (that) will affect flow - gates 1, 2, 3, and 4 equally. There are 25 MW of available transmission capacity on three of the flowgates. However, because the fourth flowgate can accommodate only 20 MW, the request will be denied. Even worse, because of the PDFs (TDFs in Fox-Penner's lexicon), the maximum reservation that could be made is 80 MW (20 + 20 + 20 + 20), not 95 MW (25 + 25 + 25 + 20). The firm customers should be offered the FTRs individually, not as a bouquet (so) the secondary market will have more depth and usefulness"

SMEPA also adds a plug for financial FTRs, which it believes will work better than physical rights in adapting to changing market conditions:

"Transmission lines are removed from service, forced outages occur, and transformer taps change. The transmission system is dynamic, PDFs will change, and flows caused by particular transactions will change. The transmission customer who thought it was protected by its FTRs may not be"

Taking the complexity one step further, Georgia Transmission Corp. questions Southern's plan to conduct its bid-based markets for ancillary services and redispatch according to nodal-based, locational marginal pricing (LMP).

"LMP calculated on a nodal basis represents a dramatic change ... a zonal-based LMP system would help all gridco customers to gradually transition into the new RTO world."

"Unlike the Mid-Atlantic region (i.e., PJM), the transmission and generation assets in the Southern subregion are highly interrelated. ... (T)ransmission maintenance neglected by one participant could result in redispatch costs for another participant. ... Zonal LMPs would tend to pool the exposure of RTO participants, so that such costs would fall at least in part on the responsible party."

"Bidding markets within zones to supply ancillary services would undoubtedly be more robust than on a nodal basis, where individual entities are likely to have much greater market power and may even monopolize a particular flowgate"

Political Reality

Overall, the Southern Companies face unique problems owing to the fact that the state of Georgia has not yet adopted a plan to introduce unbundling and retail competition.

In fact, the Georgia Public Service Commission made a point of reminding the FERC that the PSC still "has the authority to set bundled retail transmission rates." Contrary to the run of comments, the PSC still believes that it is perfectly "appropriate" for the gridco to place native load outside the scope of its tariff.

The Southern Companies allude to the political quandary in explaining why they chose to give special status to native load under the gridco tariff.'

"(We) have attempted to minimize the impacts of RTO formation on retail customers by proposing to not unbundle retail transmission. ... By doing so, (we) hope to move forward ... without becoming embroiled in a jurisdictional conflict. ... Critics of this approach have failed to suggest any other way to resolve the concerns of the Public Service Commission."

Alabama vs. Georgia?

How a native load exemption might shift costs from one state to another.

The Southern Companies propose that electric distribution utilities would not be required to purchase transmission service under the RTO tariff to serve their bundled retail service, or so-called "native load." Here, the Alabama Municipal Electric Authority (AMEA) and the American Public Power Association explain how that native load exclusion might force many Alabama consumers (those served by transmission-dependent utilities) to pay higher rates than their counterparts in Georgia:

"ON A PER-KILOWATT BASIS, the cost of Georgia Power's transmission system has long been higher than the costs of the other Southern Companies, and it will no doubt continue to be so for several years. The cost of Alabama Power's system, by contrast, is lower than the average for all Southern Companies.

"UNDER SOUTHERN'S PROPOSAL, the retail loads of Alabama Power would continue to enjoy their lower average cost, but wholesale customers and transmission-dependent utilities in Alabama (including AMEA) would pay the higher Southern-wide average rate, denying them comparability with Alabama Power's retail service, with which they directly compete.

"SOUTHERN'S COMPETITIVE ADVANTAGE in Alabama, however, is not offset by a competitive disadvantage in Georgia. Under Georgia's Integrated Transmission System Arrangement, the vast majority of wholesale loads remain in load-ratio parity with Georgia Power (not the entire Southern Company). In other words, where Southern has higher than average transmission costs (in Georgia), most wholesale loads have been locked into the same high cost. And where Southern has lower than average costs (in Alabama), Southern seeks to retain those lower costs for itself, while forcing adjacent competitors (including AMEA) to the higher Southern-wide average.

"ONE MIGHT SUPPOSE THAT planned or projected transmission additions or expansions in the various operating company areas will reduce or eliminate the existing cost disparities. However, this is far from certain.... This is because Southern proposes that its subsidiaries (as the incumbent transmission owners) have the right of first refusal in constructing and owning new transmission facilities.

"GRIDCO SHOULD BE REQUIRED to offer zonal, license-plate rates within the regions of each of the Southern operating companies such that wholesale transmission customers and transmission-dependent utilities are subject to the same average costs as the respective Southern Company affiliates."

Source: Protest of AMEA and APPA, pp, 25-26, FERC Docket No. RT01-77, filed Nov. 20, 2000.

Data Box--SE Trans

NAME: SeTrans Grid Company, LLC.

SPONSORS: Southern Company Services, Inc. (agent for Alabama Power Co., Georgia Power Co., Mississippi Power Co., and Savannah Elec. & Power Co.)

POSSIBLE PLAYERS: Georgia Transmission Corp. (GTC), the Municipal Electric Authority of Georgia (MEAG), Alabama Electric Co-op. Inc., South Mississippi Elec. Power Asso. (SMEPA).

SIZE: 25,000 miles of transmission network (voltages at or above 40 kV) covering 122,000 square miles across a four-state area (parts of Georgia, Alabama, Mississippi and Florida), valued at \$2 billion.

STRUCTURE: For-profit limited liability company (gridco). Operates grid facilities of transmission owners. TOs participating as RTO members hold passive (non-voting) equity interests. Gridco could operate facilities of non-participating TOs.

GOVERNANCE: To be determined, from three alternatives: (A) Board of Directors (7 seats), (B) a managing partner (with TO participants as passive, non-voting partners), or (C) a separate management company ("Newco") that functions essentially as a for-profit ISO and signs operating agreements with transmission owners, none of whom retain an equity interest in the RTO.

MARKETS: Bilateral trading for commodity energy. No power exchange or similar central auction. But a central bid-based market for ancillary services, and for redispatch to manage congestion, using nodal-based locational marginal pricing (LMP).

CONGESTION RIGHTS: RTO allocates physical firm transmission rights (FTRs), representing options to use certain constrained "flowgates" to complete a **contract** path reservation. Those not holding FTRs bid for redispatch (nodal LMP market, see above), or accept curtailment.

RATES AND TARIFFS: Preserves traditional status of native load (gridco tariff does not cover transmission service purchased to serve bundled retail load. TOs set revenue requirement per their own five-year plans for system expansion. Return on equity set not by FERC, but according to ROEs for bundled retail services, as set by state PUCs. Rates include PBR incentives (performance-based ratemaking).

KEY ISSUES: Criticized as too small to serve as an RTO--not internalizing loop flows or key interfaces in SE region. Said to preserve status quo by perpetuating load patterns, especially through FTR allocations and native load exemption, thus ensuring alleged dominance of Southern Companies in transmission and generation. Must reconcile RTO proposal with existing **contracts** that set up an integrated transmission system in Georgia and that allow all ITS participants to use grid facilities owned by other ITS members on a reciprocal basis.

Source: FERC Docket No. RT01-77, as updated through answer filed Dec. 4, 2000.

GridFlorida: The "Island" Transco

The state commission loves it--but why an RTO that serves only local interests?

Like the much-maligned California ISO on the opposite coast, GridFlorida, the for-profit transco sponsored by Florida Power & Light, Florida Power Corp., and Tampa Electric, would operate entirely within a single state. That spells trouble in the minds of many.

And so the Florida Public Service Commission, which sees a single-state RTO as enhancing its own authority, has come out in favor of GridFlorida, letting everyone know that the Florida RTO will not become "another California"

"We understand" says the PSC, "that some members of the FERC are of the impression that the problems in California's electricity market are due to a single-state ISO. ... (But) Florida differs from California's system."

As the RTO sponsors say in their application, "Florida is essentially an electrical island"

Echoing that claim, the Florida PSC takes the distinctly minority view that the correct geographic scope for any RTO operating in Florida is "peninsular Florida"--that part of the state east and south of the Appalachian River, which coincides neatly with the existing boundaries of the Florida Reliability Coordinating Council (FRCC). The PSC argues that states need to "play an active role" in RTO affairs--especially Florida, where the state's "Grid Bill" vests the PSC with jurisdiction over planning, development, and maintenance of electric transmission facilities.

"Florida must continue to exercise authority over reliability," adds the PSC. "Ceding authority to FERC--without a sufficient and clear state

role--could create unintended consequences."

The PSC acknowledges that utilities within peninsular Florida are highly interconnected, but that the area has little import and export capability with the Southern Companies to the North (the only interconnection). Thus, it insists that Florida "is not dependent on out-of-state energy in the way California is," and offers this comparison:

California vs. Florida Reliance on Power Imports		
System Attributes	California	Florida
Peak Demand	53,097	40,178(*)
(MW, 1999)	17,926	3,600
Max. Import Capacity		
(MW, 1999)		
Share of Peak Demand	33.76%	8.96%
(*) Winter, 1999/2000.		

Source: Western Systems Coordinating Council, June 2000; Florida Reliability Coordinating Council, July 2000, as compiled by Fla. P.S.C.

Nevertheless, not everyone agrees with this view, especially JEA, formerly known as the Jacksonville Electric Authority.

"Florida is not an island" says JEA. "It is a peninsula that imports a significant amount of power over the Southern/Florida interface. Any properly configured RTO would encompass the entire FRCC reliability region and account for all of the facilities at the Southern/Florida interface. As a result, Florida border utilities cannot justify participating in the RTO."

Moreover, the PSC admits that because of its "island" nature, the RTO will likely benefit Floridians only if it furthers the construction of additional generation within the state. And that is where the PSC admits to problems. The PSC cites the recent ruling of the state Supreme Court in the Smyrna Beach case, that turned down a construction permit for new merchant generation. "The status of state law is unclear," says the PSC.

Indeed, others put it more bluntly.

According to Dynegy, the environment in Florida for merchant generation "can fairly be characterized as 'hostile' due to the active opposition... by the incumbent integrated utilities. These same utilities also happen to be the primary sponsors and architects of GridFlorida."

As of mid-December, GridFlorida had promised but had not yet filed a supplemental application that was to contain full details about the transco's proposed market structure, including governance, pricing, market structure for ancillary services and congestion, interregional coordination, market monitoring, and other functions and attributes of RTOs as required under FERC Order 2000.

However, the sponsors had offered considerable detail about their proposal to recover embedded costs for the transmission network through a zonal, license-plate charge, based on costs within the zone in which the load is located.

That proposal had evoked opposition from JEA, which argued that license plate pricing would be ill-suited to the Jacksonville area, where power flows would occur primarily in only one direction. (See Sidebar, "Unbalanced Zones?")

Unbalanced Zones?

Why Jacksonville sees a problem with license-plate pricing.

JEA, formerly known as the Jacksonville Electric Authority, says it has invested heavily in firming up upstate interfaces with the Southern Companies, and believes that such costs will be left unrecovered under zonal license-plate pricing, which will favor costs incurred downstate, where the load is.

"A REGIONAL LICENSE PLATE PRICING MECHANISM, in which transmission rates are based on the location of load (i.e., the sink), is equitable only

in circumstances where there is a relative balance between flows into and out of each license plate zone. If power typically flows in only one direction, then load-based license plate rates simply benefit those utilities that have significant amounts of power flowing into their zones. More problematic ... there is simply no incentive to develop generation facilities close to load.

"GRIDFLORIDA'S ... MECHANISM ... INEQUITABLE to JEA, a utility with significant investments in the Florida-Georgia interface. While JEA typically transmits power to serve load in the South, the transmission facilities of southern utilities generally are not utilized to deliver power to load served by JEA. ... (However), Florida is generation-deficient, making the Florida-Georgia interface a critical facility in meeting load demands in the State..

"OTHER OPTIONS SHOULD BE CONSIDERED. For example, transmission charges for an RTO operating in Florida could consist of a single licenseplate access fee based on the zone importing or hosting generation, not the zone hosting load."

Source: Motion of JEA to Intervene and Protest, pp. 12-13, FERC Docket No. RT01-67, filed Nov. 20, 2000.

Data Box--GridFlorida

(Note: Though GridFlorida filed an RTO application on Oct. 16, 2000, complete with proposals on rates, market structure, and congestion management, it asked FERC only to OK certain proposals regarding (1) selection of board members and a CEO, (2) criteria for qualification of directors and officers, and (3) restrictions on financial holdings of directors, employees, and their relatives.

It said that all other details were subject to change. GridFlorida filed its followup proposal on Dec. 15--too late to be analyzed here. Thus, only a bare outline of the RTO is presented.)

NAME: GridFlorida, LLC (owned by GF Inc., a separate company.)

SPONSORS: Florida Power & Light Co., Florida Power Corp., Tampa Electric Co. (FP&L would divest its grid assets. FPC would retain ownership. Tampa was still pondering its options as of mid-December.)

STRUCTURE: For-profit transco. Would own grid assets acquired from FP&L, and operate grid facilities retained by other participating TOs not divesting such assets.

MARKETS: Bilateral trading for commodity energy. No power exchange or similar central auction. Bid-based markets for ancillary services and congestion.

CONGESTION RIGHTS: RTO allocates physical transmission rights (FTRs), keyed to flowgates. No financial rights implied by FTRs. Zonal prices for congestion. Costs of intrazonal congestion are recovered within the zone (i.e., not "socialized").

RATES AND TARIFFS: Zonal license-plate access charge to recover embedded costs of transmission system (retained for five years), with systemwide postage-stamp charge to recover incremental costs for investment added after RTC) formation. Zonal license-plate charge is phased-out over years six-10, in transition to single, systemwide postage-stamp rate after 10 years.

KEY ISSUES: Criticized as too small to serve as an RTO--but no allegations of external loop flows. Questions about relying on physical congestion rights based on flowgates, plus alleged dominance by FP&L, apparently the only utility planning to divest its transmission to the transco.

Source: FERC Docket No. RT01-67, as updated through answer filed Dec. 5, 2000.

GridSouth: Business First, Markets Later

RTO will wait before launching any plan for real-time pricing.

To the Carolina Utility Customers' Association, it is a mere "bureaucratic overlay" --layered on top of three unchanged utility systems.

South Carolina's Consumer Advocate calls it a "paper tiger"--with the real authority resting in the hands of utility transmission owners. And the South Carolina Public Service Authority (more widely known as "Santee/Cooper") feels left out in the cold. It complains that the collaborative process leading up to the proposal was, "to be charitable, sub-par"

Yet, to its three ground-floor sponsors, Carolina Power & Light, Duke Energy, and South Carolina Electric & Gas, the proposed GridSouth RTO is nothing but a cold, hard business--not philanthropy.

"There can be no mistaking the considerable disagreement that certain intervenors have with the proposal," the applicants concede. Yet they insist there was no other way.

"GridSouth is a joint business venture" they explain, "formed by transmission owners to eventually ... make those businesses more profitable. So long as GridSouth meets the RTO requirements ... the forming transmission owners should have the right to negotiate a structure for their new company that will maximize the value of their transmission assets"

GridSouth sees a regional collaborative process as the enemy to fruitful negotiations. The RTO's three utility sponsors say that such dialogue "tilts the process inexorably against the filing companies, who are expected to compromise without any reciprocal commitment from the other parties"

Moreover, GridSouth staunchly defends its right to force any new members who join the RTO during an "open window" period to pay a 10 percent premium above the initial capital investment incurred by the three founding members, for the right to acquire the same degree of equity ownership.

"This premium," says GridSouth, "merely allows the founders of the company to receive compensation for their 'sweat equity.'"

The founders continue, "It is elementary that an investor who buys in at the ground floor--before the business is established--should get a better deal than those who wait until the business is further along"

What's Included

At its core, the GridSouth model retains much of the territorial and functional integrity of its three transmission-owning utility sponsors, requiring market players in the Carolinas to continue essentially to deal with three different regimes: three control areas, three pricing zones, and three separate entities for settling imbalances, managing congestion, and planning grid expansion. The GridSouth applicants defend that design, however, explaining that building a new consolidated control area would be too expensive. (GridFlorida offered the same argument to defend its decision to retain three separate control areas.)

Also, GridSouth adds that neither of the two state public utility commissions in the Carolinas has done much to require retail competition or unbundling, so that the duty to serve remains in both states, with each utility still required to meet statutory requirements for operating and planning their systems to meet the needs of their native load customers.

And for that reason, GridSouth has proposed no centralized power exchange or energy auction market, nor has it offered plans for markets for real-time pricing of imbalances or congestion. No locational marginal pricing. No flowgates or transmission congestion contract rights.

According to New Horizon Electric Co-op, GridSouth's scheme for imbalance trading "is merely an after-the-fact billing convention, providing no real-time price signals that are market-based" Many others oppose this scheme. They complain that GridSouth's imbalance "market" will be extremely illiquid and inefficient if the RTO continues as planned to require all market participants to settle imbalances within a single control area. A group of municipal utility interests put it this way:

"A network service customer which is long (a surplus imbalance) within one control area cannot trade those imbalances with itself in another

control are where it is short (a deficit imbalance)"

GridSouth in fact concedes that its proposal falls short of creating a real-time balancing market, but defends it as "a good first step towards the FERC's objective." GridSouth argues that it would be premature to design such markets until an RTO is in place to ensure grid independence, until state regulators begin to introduce unbundling and retail competition, and until the three utilities transfer ownership of the transmission networks to the RTO--an event which GridSouth admits may not happen anytime soon, if ever.

Each separate utility control area would also function as a separate pricing zone, with rates designed after the popular license-plate pricing model, recovering all transmission plant costs and revenue requirements separately for each utility. The rate structure would include a systemwide "transmission service charge" (TSC--a grid management charge paid by all transmission customers), and would separately calculate a combined revenue requirement for the entire GridSouth zone that would define prices for "through" and "out" service not involving a "sink" located within GridSouth proper.

Again, as has been seen with other proposed RTOs, many GridSouth opponents question why the RTO must collect a systemwide grid management charge if embedded utility-specific revenue requirements are already recovered in license-plate rates for transmission. GridSouth admits to the design:

"The intervenors are correct that grid users will now pay two sets of costs--transmission owner costs and GridSouth costs (the TSC). ... Such costs do not overlap, as some intervenors imply: GridSouth and the transmission owners are wholly separate entities, each with their own costs."

But then comes the more remarkable admission from GridSouth:

"Although it may be rational to expect energy costs to decrease with an RTO, and perhaps for rates per megawatt of transmission to be reduced, the expectation that the overall transmission revenue requirements of the transmission owners will decrease from current levels is an unrealistic expectation in the short-term. (We) are not aware of any existing ISO/RTO member who has filed for a transmission rate decrease since joining an ISO."

And What's Missing

"What is also important," says South Carolina Consumer Advocate Philip Porter, "is who is missing in this RTO; prominently, for example, the South Carolina Public Service Authority."

Of course, even Santee/Cooper admits that the private-use bond restrictions under the Internal Revenue Code and the South Carolina Constitution make it problematic for it to join GridSouth, even though, on a stand-alone basis, the Authority operates 35-40 percent of the transmission lines in South Carolina, covering about 75 percent of the state. In fact, Santee/Cooper was an original signatory (May 1, 1970) to the VACAR agreement (Virginia-Carolinas Reliability Group Reliability Agreement). Many in the Southeast believe that Santee/Cooper (and, by the way, Virginia Power, which has committed to the Alliance transco) should be included as members of GridSouth.

"Were the Authority not a public agency, its participation in the discussions leading up to creation of the GridSouth proposal would not even be a question." Yet Santee/Cooper still feels it could have been included in some secondary way.

"Within these constraints the Authority can envision the meaningful integration of its transmission facilities with those of GridSouth through a coordination or seams agreement."

Municipal utilities in North Carolina feel the same. They echo the suggestion from Santee/Cooper that all members of VACAR, including Virginia Power, should be members of GridSouth. They continue, "Unlike some other

RTO proposals, the proposed GridSouth arrangements ... offer no practical accommodation of the special tax circumstances of cooperatives and municipalities." By way of comparison, they cite efforts undertaken by the Midwest ISO, which, they say, had proposed to protect cooperatives from additional federal tax exposure by designating the ISO as an agent acting on behalf of members to receive funds from transmission customers. The intervenors admit, however, that "the IRS has not yet Tied whether the MISO agency method will spare cooperatives from additional and substantial federal tax exposure"

In the long run, however, GridSouth saw such concerns as other peoples' problems.

"While certain statutory provisions may preclude certain public power entities from joining a for-profit RTO, it would not be fair to require (the) applicants to abandon their desire for a for-profit RTO simply because of statutory restrictions over which they have no control."

Generation Availability

Key to Success?

In a protest against the GridSouth RTO proposal, a group of municipal utilities and rural cooperatives in the Carolinas argues that any successful RTO should be big enough to ensure a wide availability of generation supply from competitive sources. Led by the attorneys Gary Newell, of Spiegel & McDiarmid, and Susan Kelley, of Miller Balls & O'Neill, these parties offer comparisons of generation supply availability among current ISOs and within the territory of the proposed GridSouth RTO, using evidence collected and compiled from various sources, including the Electric Power Supply Association, the U.S. Energy Information Administration, and the RDI NewGen Database.

Table 1: Comparing the Regions Competitive energy supply as share of capacity or peak load.

Sources of Generation Supply	Calif. ISO	PJM	NY ISO	ISO NE	Grid South
Merchant Gen Up By 12/31/2001 (% of peak load, per EPSA)	8.4	6.1	2.5	58.1	4.5
Merchant Gen Existing or Planned (% of peak load, per EPSA)	41.9	28.6	29.6	80.9	4.5
Non-Utility Supply (% of summer capacity rating, per U.S.E.I.A.)	41.4	10	15.4	44.7	5.6

(Source: Electric Power Supply Assn. and U.S. Energy Information Administration. The municipal utilities admit that the figures in Table 1 may be slightly overstated for PJM, but add that such overstatement would disappear if Allegheny Power were to join PJM under the "PJM West" concept, as currently contemplated.)

According to Newell, Kelley, and their clients, the table shows that, with the exception of the New York ISO, merchant generation expected to be on line by the end of this year is available to a much greater extent in every region than in GridSouth. "The difference is even more striking," they say, when one compares for GridSouth and the four ISOs the portion of peak load that would be met by the total of existing and planned merchant

generation shown in the EPSA database.

Table 2: GridSouth In Depth

Shares of Gen Supply: RTO Applicants vs. Third Parties

	GridSouth Application (% Share)	All Other Supplies (% Share)
1. Capacity in Operation	74.29	25.71
2. Capacity Under Construction	39.16	60.84
1 + 2 Combined	75.11	24.89

(Source: Utility Data Institute and RDI NewGen Database.)

Of course, Newall, Kelly and their clients admit that "planned generation" in all of these various regions "may actually never be built." But they counter that concern by noting that the shares of merchant generation described in Table 1 may in fact be understated, since those figures omit divestitures of utility-owned power plants to third parties.

Moreover, they add that the regional discrepancy is likely understated. For example, they note that the EPSA figures for the "merchant gen" sector described in Table 1 do not reflect generation in each region that was built for other purposes but that has since become "merchant" in nature. Second, they add that the EPSA data does not include as "merchant" generation the "substantial number" of generating plants that were built by utilities to serve their franchised loads that were later divested to merchant operators, often in response to state restructuring statutes.

Thus, they conclude that "if divested generation were included in the above compilation, the spread between GridSouth and the four ISOs would be vastly wider than shown in the foregoing table."

"The crucial point," they contend, is not only that the GridSouth applicants dominate the generation market, but that "their dominance is expected to continue into the future."

Source: FERC Docket No. RT01-74-000, Joint Protest on Behalf of Electricities of North Carolina Inc., North Carolina Elec. Memb. Corp., New Horizon Elec. Co-op Inc., Piedmont Mun. Pwr. Agency, Cent. Elec. Pwr. Co-op Inc., and Cities of Orangeburg and Seneca, S.C., pp. 33-39, filed Nov. 20, 2000.

Data Box--GridSouth

NAME: GridSouth LLC

SPONSORS: Carolina Power & Light Co., Duke Energy Corp., South Carolina Electric & Gas Co.

POSSIBLE PLAYERS: South Carolina Public Service Authority (Santee/Cooper)

SIZE: 33,500 MW peak load; 10,000 miles of transmission network covering 65,000 square miles across North Carolina and South Carolina, valued at about \$3.07 billion.

STRUCTURE: For-profit limited liability company (transco) that would take on functional operation of grid facilities from the three sponsoring transmission owners. These TOs hold passive (non-voting) interests. No present plans for TOs to transfer grid ownership to transco. Each TO runs its own control area.

GOVERNANCE: Board of Directors (seven seats), plus Stakeholder Advisory Committee (\$10,000 initiation fee plus annual fee of \$5,000).

MARKETS: Bilateral trading for commodity energy. No power exchange or similar central auction. No real-time markets proposed as yet for ancillary services, imbalances, or congestion management. Participants net imbalances within control area (or settle with others in the same zone) and pay an as-yet-undefined "hourly imbalance charge" (HIC) to GridSouth.

CONGESTION RIGHTS: No apparent tradable financial or physical rights to transmission. Congestion is settled administratively within control areas on basis of load-ratio causation of congestion over constrained paths.

RATES AND TARIFFS: Plan will "grandfather" any existing transmission contracts executed prior to July 9, 1996. Also preserves traditional status of native load--i.e., any transmission service purchased by a load-serving entity to serve bundled retail load would remain exempt from the RTO tariff. TOs will set revenue requirement within their pricing zones (same as control area), charging license-plate rates, to remain in place through 2006, with a possible rate moratorium during that time. RTO collects a systemwide transmission service charge (TSC). Actual rates to be proposed in mid-February.

KEY ISSUES: (1) Right of TOs as passive owners to "control" board selection and any subsequent equity issues through an IPO. (2) Requirement for late-joining members to pay a 10 percent premium to acquire equity interests. (3) Omission of Santee/Cooper, which controls 35-40 percent of transmission miles in South Carolina. (4) Three separate control areas instead of one. (5) Lack of real-time markets for imbalance trading and congestion management. (6) Right of TOs for right of first refusal to build transmission in their own service territories. (7) TO authority to calculate available transmission capacity and to plan transmission expansion and conduct cost and feasibility studies. But TOs answer that decisional authority remains vested with RTO.

Source: FERC Docket No. RT01-74, as updated through answer filed Dec. 5, 2000.

RTO West: Best in Class?

The Pacific Northwest warms up to public power.

"There is, much to praise here," says Joseph Hartsoe, I Enron's vice president for federal regulatory affairs.

"There is much to like," adds Julie Simon, policy vice president for the Electric Power Supply Association.

Hartsoe and Simon are talking about two separate but overlapping plans to create RTO West, covering the Pacific Northwest, and TransConnect, a for-profit transco, which would become a member of the new RTO. One might surmise from their comments that RTO West and TransConnect will enjoy clear sailing. In fact, quite a few differences will still require ironing out. But overall, the outlook appears bright, since RTO West and TransConnect seem to have overcome the two major roadblocks to transmission restructuring: (1) getting public power on board, and (2) incorporating bundled retail load (native load) into the mainstream of regional market structures.

For example, Enron commends RTO West for "finding a way" for the Bonneville Power Authority (BPA)--a federal power marketing administration (PMA)--to participate together with the region's other transmission owners. As Hartsoe explains, the "good work in this respect should be the basis for requiring all PMAs and the Tennessee Valley Authority to relinquish operation of their transmission systems to an RTO"

And at EPS& Simon sees RTO West as no less than a model for resolving the "black box" of native load: "Today 70 percent to 80 percent of the transmission system in the Northwest is used to serve native load (and) is not subject to the same terms and conditions that apply to other transmission. This discrimination is remedied under the RTO West proposal."

The Players

Six traditional, transmission-owning utilities have proposed to form TransConnect, a stand-alone, for-profit transmission company, or transco. (See "Data Box--RTO West.") That group plus three added companies have applied to form RTO West, which would function as a not-for-profit ISO, operating transmission owned by third parties across an area including all of the Northwest Power Pool, plus the Nevada Power service territory--covering all or parts of eight states.

In two separate cases filed at the FERC, these two groups have filed their so-called "Stage One" plans, which specify terms and conditions for (1) RTO and transco governance (selection and qualification of board

members), (2) RTO size and scope, and (3) some details on liability agreements, and (4) transmission planning and expansion. However, most of the details regarding rates, markets, and grid operation, including lists and maps of flowpaths, and specific protocols for settlement of imbalances and congestion, and allocation of firm transmission rights (FTRs), are left to Stage Two documents, set to be filed in the spring.

This two-step plan has produced much of the friction to date.

Enron, EPSA, and Dynegy argue that if the RTO is to be considered as truly independent of markets, as required by FERC Order 2000, then the RTO filing utilities should put their proposed stakeholder board of trustees in place as soon as possible, so that it's the RTO board and managers--and not the filing utilities--who develop the details of tariffs and pricing. As Julie Simon explains, such an approach ensures that the Stage 2 details will "have the imprimatur of the independent board and management of RTO West."

Yet the utilities balked at this suggestion in their answer filed on Dec. 5.

"Substituting the RTO West board of trustees for the filing utilities would come at a high price in the form of delays," say the utility sponsors of RTO West. They see this suggestion as an attempt to gain reconsideration of issues already decided. "This process," they say, "realistically could not be completed before spring 2001."

Grid Planning and Expansion

Perhaps the single most contentious issue contained in the Stage 1 plan is the proposal by TransConnect asking the FERC for authority to file tariffs for performance-based rates (PBR) or other incentives to help the transco undertake responsibility for transmission planning and expansion. Many parties say this request violates FERC Order 2000. They say that RTOs must dictate grid planning and expansion, and that only RTOs--not transmission owners--can file tariffs for transmission service pricing (though transmission owners can determine costs and revenue requirements associated with such rates).

The comments of the Public Power Council are typical:

"The TransConnect motive is transmission-oriented, thus distorting price signals and introducing bias in favor of transmission at the expense of non-transmission but cost-effective solutions to resolving congestion, or other planning problems such as demand-side management and generating siting."

The disagreements arose apparently because the RTO working groups could not agree on whether the RTO should play only a "backstop" role in grid planning, acting as the guardian of reliability, or an active role to ensure that market forces govern the process. Consider the comments of a group of energy efficiency advocates, including the Northwest Energy Coalition, and the Natural Resources Defense Council:

"From the beginning" say the advocates, "the issue of where responsibility should lie for making expansion decisions flip-flopped between two basic alternatives:

- * Market Approach. The RTO essentially needs to send good price signals and then help coordinate and assist.... Proponents of this view ... feared that an activist RTO with the ability to socialize costs ... would preempt and inhibit the market.

- * Backstop Approach. The market may not work quickly enough to avoid disastrous situations.... Thus the RTO must have the ultimate authority to fund projects to keep the lights on."

In fact, some question why the filing utilities decided in the first place to seek FERC certification regarding the functions and "independence" of the stand-alone transco known as TransConnect. For example, the Utah Associated Municipal Power Systems insist that TransConnect (albeit a large company) will carry the same legal status as any other transmission-owning utility that participates within RTO West:

"The TransConnect proposal plainly is not a 'compliance filing' required by order 2000.... Given that TransConnect is not intended to be an RTO, it is not clear why the FERC should concern itself that utility's alleged 'independence.' ... It would be entirely inappropriate to allow one for-profit transmission company within the RTO West umbrella to make its own unilateral decisions about what transmission expansion decisions would best serve the region and then demand recovery of those costs through RTO West rates?"

The Canadian Connection

Electric links with Canada create unique issues for RTO West. Consider TransAlta Corp., for example, which participated extensively in the discussions that took place last year and led to the RTO West plan.

In comments filed in November, TransAlta noted that market participants in Alberta seeking to gain access to electric markets in the U.S. Pacific Northwest are "highly dependent" upon grid facilities owned and operated by the British Columbia Hydro and Power Authority, and urged the FERC to do all in its power to encourage BC Hydro to participate in RTO West.

The Alberta Power Pool endorses that view:

"While both Alberta market participants and those in the Pacific Northwest desire to enhance ... cross-border trade in electric power, they are currently entirely dependent on BC transmission facilities for access.

"A key element is that all corridors, including the U.S./BC/Alberta corridor be made fully viable for competitive access in both directions.... Alberta considers this a critical mission."

Meanwhile, however, BC Hydro has many reservations. It questions whether RTO West will offer enough firm transmission rights (physical rights keyed to flowpaths) to create a liquid market, and wants RTO West to create a bidding system for unused FTRs. It also questions why RTO West has decided not to take control over all lines at transmission-level voltages within the RTO area, and apparently wants RTO West to do more to provide incentives for public power to join, such as rights to convert existing **contracts** during the RTO's first year to higher priority service.

More importantly, however, BC Hydro takes issue with the RTO's proposed Agreement Limiting Liability, arguing that it will not mesh well with Canadian efforts to develop an independent grid operator (BC IGO) in British Columbia.

"The (agreement) does not address the liability and insurance issues associated with the coordination of RTO functions and services between RTO West and BC IGO" says BC Hydro.

"The (agreement) assumes that Canadian participants will enter into direct **contractual** relationships with RTO West, whereas under the agreed-on framework, Canadian participating transmission owners will have **contract** privity with ... BC IGO, which in turn will **contract** directly with RTO West."

A Mission to Serve

While RTO West has won plaudits, some question whether the benefits are worth the costs. In particular, RTO West would operate a single control area, prompting many to compare it with the California ISO, which is known for spending millions to build its own brand new control center.

One critique comes from a group of industrial customers that includes Alcoa, Kaiser Aluminum, Boeing, Boise Cascade, BP-Amoco, Hewlett-Packard, Kimberly-Clark, International Paper, and Weyerhaeuser. They cite the RTO's projections for \$82 million in startup costs and, and in particular the \$63 million budget for annual operations. "This estimate is ... in the range of 20 percent of California ISO costs.... These estimates are extremely optimistic."

A group of consumer-owned utilities from Idaho agrees: "The operating costs of the California ISO, which operates a transmission system roughly equal in size to the system RTO West would operate, are in the

range of \$225 million per year."

Perhaps the real guarantee of consumer benefits lies in crafting the proper corporate mission statement for RTO West. That's the advice offered by David Warren, director of the Office of Trade and Economic Development of the state of Washington.

As Warren thumbed through the bylaws, he noticed that RTO West pledged only to make the FERC happy. As stated in Article III, the bylaws defined the purpose of the RTO West as "to serve as an RTO for the RTO West geographic area in accordance with the applicable requirements of FERC" By contrast, Warren suggested that the RTO should serve a higher authority. He recommended a new mission statement:

"The purposes of the corporation are to serve the public interest by reliably operating the high-voltage transmission system ... at the least cost to society ... and by carefully balancing the various economic and non-economic interests...."

Warren explained his idea:

"(O)ne hopes that an organization on which so much effort is being expended has more purpose than simply to fulfill a regulatory mandate."

Winning Bonneville's Trust

Should that require special dispensation?

ENRON HAS PRAISED RTO WEST for attracting the Bonneville Power Administration as a concurring party.

YET ENRON OPPOSES THE PLAN TO GIVE PREFERENCE to requests for transmission service to service certain loads in the Pacific Northwest. RTO West proposes such a preference to allow BPA to participate in the RTO without violating federal laws that give preferences to public power entities to hydropower from federal projects.

ENRON FORSEES A "PERNICIOUS BALKANIZING EFFECT" on regional power supplies and argues that the preference will force the RTO to discriminate. According to Enron, "the contention that a regional preference is legally required is both at war with this nondiscrimination mandate and demonstrably false. For several years," Enron explains, "BPA has offered an open-access transmission tariff containing no similar regional preference."

AND OTHERS QUESTION whether consumers will benefit from creation of a new RTO with Bonneville as a key player:

"THE BENEFITS OF AN RTO ARE LIKELY TO BE SMALL because Bonneville already captures much of the benefit."

--Idaho consumer-owned utilities

"LONG BEFORE THE ENERGY POLICY ACT OF 1992, northwest transmission owners substantially operated the grid on a common-carrier basis.... BPA has been required to make surplus federal transmission capacity available to other users on a fair and non-discriminatory basis."

--William Patton, utilities section director, office of Seattle city attorney

"BONNEVILLE OWNS APPROXIMATELY 75 PERCENT of the high-voltage transmission system (230-kV and above) in the Pacific Northwest and nearly 50 percent of such facilities in the RTO West geographic area.... Given the dominance of Bonneville.... the RTO is likely to produce little, if any benefit in terms of constraining monopolist market power in this region."

--Idaho consumer-owned utilities

Data Box--RTO West

(Note: Stage 2 plans filed this spring to offer more details on tariffs, markets, and grid operation.)

NAME: RTO West

SPONSORS: Avista Corp.*, Bonneville Power Administration (concurring party), Idaho Power Co., Montana Power Co.*, Nevada Power Co.*, PacificCorp, Portland General Electric Co.*, Puget Sound Energy Inc.*, Sierra Pacific Power Co.* (*--Denotes companies also proposing to form a standalone, for-profit transmission company, TransConnect, that would become a member of RTO West.)

SIZE: Covers Washington, Oregon, Idaho, Nevada, Utah, most of Montana, plus parts of Wyoming and California. Equivalent to Northwest Power Pool plus territory of Nevada

STRUCTURE: Not-for-profit ISO. (TransConnect is a for-profit transco.) Transmission owners hold passive voting interests. (Tentative plans by TransConnect to allow utility members that divest transmission to the transco to acquire "Class C" voting stock as "transmission-dependent utilities.")

GOVERNANCE: Board of Trustees, chosen by 30-person selection committee, in turn selected by vote of six-person stakeholder committee with TOs holding two of six seats.).

MARKETS: Bilateral trading for commodity energy. No power exchange or similar central auction. No real-time markets specified as yet for ancillary services, imbalances, or congestion management. Proposes zonal-based, real-time balancing market.

CONGESTION RIGHTS: Physical, tradable firm transmission rights (FTRs) keyed to flowpaths. Customers scheduling across flowpaths must have FTRs, non-firm rights, or rights under pre-existing **contracts**. Zonal FTR auctions proposed.

RATES AND TARIFFS: License-plate pricing with company-specific zones, in place until 12/14/2011. Tariff to cover service formative load. Possible import/export charge to "through" or "in/out" service.

KEY ISSUES:: (1) Authority of TransConnect over grid planning and expansion. (2) Allocation of FTRs to take account of load growth. (3) TransConnect plan for members that divest transmission to convert equity interest to Class C voting shares reserved for transmission-dependent utilities. (4) Exclusion/inclusion of Nevada Power service territory. (5) Failure of RTC to extend control to all transmission facilities. (6) Who finalizes Stage 2 plan--new board or filing utilities? (7) Terms and conditions for suspension of existing transmission **contracts**, including compensating transfer charges. (8) Rollover rights for large number of "through" **contracts** signed during last two years. (9) Regional preference encouraging BPA participation. (10) RTO attempts to protect sanctity of PUC-ordered stranded cost surcharges. (11) Monetary liability for wrongful dispatch. (12) Whether FERC should consolidate TransConnect application with RTO West.

Source: FERC Docket Nos. RT0 1-15, RT01-35, updated through answers filed Dec. 5, 2000.

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